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THE POLISH LISBON STRATEGY FORUM

The Union Authority for Development*

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The most important issue to be solved as regards the EU constitution is the system of authority. It will decide on rules of the game in this group, further integration process, as well as the future of the European Union . Therefore, we cannot compare the importance of these decisions with the meaning of financial aid, even if it amounted to billions euro.

The integration is a kind of European public good and it is in the interest of all nations of our continent. The EU system of authority, which will strengthen it, must meet two conditions. At first, it must guarantee the balance of development interests of all its members. Secondly, it must correspond to real strategic challenges faced by the Union as a whole and by its individual states. The system of authority not meeting these conditions will not be useful for anybody in a long run, and it will lead to the erosion of integration.

Europe at a turning point

The European Union has already got tens of years of prosperity and stability behind it. Now, however, it is at its turning point. Either, during the following 10 – 15 years, it will adjust to globalisation requirements, the growth of competition resulting therefrom, and society ageing, or it will enter the inclined plane leading to the loss of competitiveness, outflow of financial and human resources, stagnating economic growth, and as a result, to gradual systematic deterioration of its position in the world. In the optimistic variant, although such a deep transformation of the Union, including mainly the restriction of the caring state, will result in a wide wave of tensions and social conflicts, it will not endanger its social and politic stability and integration processes. In the pessimistic variant, if the transformation is too shallow, at the

beginning there will be less conflicts, but later, along with the cumulation of negative economic phenomena, the concentration of various types of extremisms and nationalisms will be that big that it will cause a real danger of destabilisation of the social and political stability in Europe and the dissolution of the Union.

Although, the challenge of adjusting to globalisation and ageing societies refers to all, without any exceptions, European states, the three big states of so called hard core of Europe: France, Germany and Italy will have the biggest problems. These countries, constituting the biggest part of the economic potential of the European Union, will be a bottle neck of the transformation of our continent since they are hostages of their own ineffective and very deeply rooted system. Small and peripheral states located in the north, east (new members) or south, as the existing experience shows, usually have got bigger adjustment skills. Objectively speaking, these three big states of the European centre, which - according to the draft constitution - hold a control stake of the authority in the EU, have got two ways to solve their development problems. They may take the intervention, in fact defensive, path, consisting in imposing rules of the game and policy convenient for themselves on small and peripheral states, and as a result improving the situation at their cost. Or the deregulation, in fact offensive, path, consisting in allowing for some internal system competition and diversification of policies to use the whole potential of the continent. The exploitation approach, discounting the existing integration achievements and the power of political pressure, may bring about only temporary effects, and it will never solve the problem of long-term competitiveness. Politically, however, it is much easier and more likely if other partners of the integration process agree for it. The very fact of granting some financial aid to less developed states (structural funds) in the Union may lead to wrong conclusions regarding the essence of the situation. An example may be the relation between rich states of the north and poor states of the south. Even the aid amounting to billions will not be able to compensate for damages caused to the latter by rules of the game imposed by highly developed states of the north (mainly in the form of interventions in the agriculture). A better example of superior meaning of the institutional and regulation system over financial aid is eastern Germany. „During one night” the whole changed social and economic system of western Germany was

introduced there. It efficiently affected the competitiveness of the economy of this area, and even transfers of hundreds of billions euro did not suffice to overcome economic stagnation and a very high unemployment rate resulting therefrom.

Three types of interests

To make the system of authority in the EU representative, we have to take into consideration three most important types of interests: policy, system and development. The first of them is best recognisable and prevails in the debate. Its symbol is the division into large and small states and a postulate to secure interests of small states. The latest evidence of the significance of this type of interests is that large states (France and Germany) are infringing the Union rules of stabilisation and growth, whereas small states (the Netherlands, Ireland) are fully required to observe them.

The system interest is not much noticeable in the debates, and it is the most important one. It refers to the rules of economic game, known as the institutional order, which, from the point of view of social and economic development, are the most important. In this context, we may generally divide the Union into two blocks of states. The pro-market block led by UK and the ethatistic and corporate block with France and German as its leaders.

In this game, usually each state tries to export and enforce its institutional solutions since it feels best with them and has got some comparative advantage. For example, Germany tries to export its tradition of employee councils at companies to the Union law, whereas the British find them an obstacle for their effective operation.

The globalisation and the growth of competition resulting therefrom, at present, restrictively verify the effectiveness of institutional order. The enforcement of other solutions convenient only relatively, i.e. from the point of view of own tradition, skills and development level, but inconvenient from the point of view of the global game, reduces the competitiveness of the whole group. The European Union has to redefine the European social and economic model, deregulate and increase the role of the market, and decrease the state and corporate systems. Marketing such areas, like labour market, research and development and network industries (power,

telecommunication, transport, post) is a required to use the existing potential better and improve productivity and competitiveness.

On the other hand, the third development interest results from achieved development level and a real economic situation. This interest refers both to system solutions, including technical, social and environmental standards, as well as directions, criteria and instruments of current economic support based on public funds. For example, highly developed states may greatly prefer to protect their environment and promote high standards and public expenditure related thereto. Imposing such preferences on less developed states may be highly inconvenient to them and lead to the growth of unemployment and reduce their abilities to increase income and fight the poverty. The same refers to technologies. Rich states naturally prefer to support the development of advanced world technologies, whereas states making up with them would prefer to guarantee the import and creative absorption of the existing, usually average, technologies. Basic differences in preferences may also refer to technical infrastructure and many other areas.

Generally speaking, in the broadened Union, there are three development areas: highly developed states, cohesion states, i.e. the states making up with the latter: Portugal, Spain, Greece, and new member states, which are not only at a lower development level, but additionally their development trends (in the case of eight of them) result from their communistic past.

The above types of interests are mostly grouped in blocks. It is very important from the point of view of their representation in the system of authority. Each of these block of interests has to be present in the group of leading states with the biggest power of their votes.

Given these three groups of interests, while considering Nice and constitutional solutions, we may clearly see that the latter guarantee smaller representation of small, cohesion and accession states. In the key decision-making body, the European Council, small and new states will have much smaller power of votes. The blocking power, which, as the whole experience of the Union shows, is the most important instrument of the authority, will be held by three large central states (with over 40% of population), i.e. the states mostly resistant against any changes. *Status quo* societies

developed during the decades of the „caring state”. Whereas, the Nice treaty establishes a leading group in the form of six more diversified states: France, Germany, UK, Italy, Spain and Poland. System and development interests are much better represented in this group.

Integration strategy

The other, next to the balance of interest, key element to define a desired system of authority in the Union is the very integration strategy. Would we want, already now, to harmonise policies further and faster, integrate deeper, and unify and federalise the Union, or it is better for us to leave some field for system competition within the Union and visible stages of further integration process? From this point of view, the discussion is not simple since the states that are theoretically considered as advocates of fast integration deepening, like Germany and France, in practice slow down the introduction of already agreed integration level, i.e. the single market, and they often do not observed agreed rules themselves. Whereas, the states considered as integration sceptics, like Scandinavian members, in practice, realise the joint agreements in the best way. The accession states, perceived as a serious threat to the Union stability, also are determined to implement the Union law, regardless of economic and social costs, although Poland, due to its administrative and structural weaknesses and the size is slightly behind them in this area.

The fact is that the Union as a whole has already got some serious problems with practical implementation and consumption of the agreed integration level. It mainly results from difficulties related to its existing drives. These are not only national, but sometimes even group interests, for example connected with *Volkswagenem* or *Electricite de France*, that have been blocking the introduction of the single market of company acquisition, the power market, or the maintenance of uniform rules of public aid and competition. The history of the stabilisation and growth package of the Treaty shows that we are likely to approach the *a la carte* model of integration, but only for the biggest and most influential states. It is difficult to be satisfied with that. We would prefer that the leaders achieved some successes and gave

a good, and not bad example. Especially that the leaders seem to have problems to identify the most important challenges.

The future of Europe does not depend on that whether we will manage to agree on single foreign and military policy, but on that whether the European Union will manage to adapt to requirements of global competition and society ageing. If the Union does not solve its economic problems, it will not be able to invest in its security and be one of global players in the international policy. At present, it is clearly seen in the case of France, which is surprised to discover that it is much less attractive partner than the USA for north African states (Algeria, Morocco, Tunisia, Libya, Mauritania) believed to be its „influence zone”. Since it is the power of arms and money that counts, and the French are much weaker in these areas.

Our continent faces a heroic effort to reduce the state of welfare, deregulate and market labour markets. The harmonisation of tax and social systems and policies carried out according to requirements of the largest states having the most ineffective solutions, following the Social Union message, would be unfortunate for the whole group. Instead of unifying ineffective systems reducing international competitiveness, the Union needs a deregulation drive, both at the Union level (the Mandelkern’s report mentions the need to delete 40% of the Union law), as well as at the level of individual states. It has to be done now during the nearest 5 – 10 years since later the political power of older people will block required changes for ever. May it be done by political elites of member states that have been attracting their societies with advantages of the social state for decades? Rather no, although we have to keep fingers crossed for their success. May the very European Commission stimulate that efficiently? Rather no. We may see that it becomes weaker and weaker year by year, because the community element of the Union weakens and the national element strengthens. It is not a convenient trend, but it occurs, although to enforce the single market and maintain the whole European project stable, the Commission has to be strong.

The only real hope to enforce difficult adjustments is to maintain a certain portion of internal system competition. Whereas, too fast harmonisation and unification of over-regulated systems and social and economic policies may only reduce competitiveness and investment attractiveness of the least developed states and

the Union as a whole. We know examples of enforcing excessive regulations to raise costs of internal competitors from the history of federal states. In the USA, for instance, the northern states once enforced minimum salaries on the southern states under a federal regulation adopted by the majority of votes in the Congress. For the North it was not important, because the salaries were higher there. Whereas, it reduced the competitiveness of the South. During the times when German countries joined under Bismarck (1870), Prussia (and its allies) also enforced its high regulations on more liberal western countries.

The accession states are entitled to be afraid that new excessive standards will be enforced in future. It may refer, for example, to regulations concerning the Services of General Economic Interest, discussed more and more often, in the power, transport, telecommunications, water supply and other areas. Such standards, convenient for consumers, could deepen their budgetary problems and reduce the competitiveness of their domestic companies. The least developed states should also be able to select their working time. Rich societies may want to work less, even at the cost of smaller income growth. It is a matter of their cultural choice. Whereas, developing societies, where there are simply a lot of poor people, to make up for the gap, must work more. Western Europe did the same in the 50s and 60s when it was making up with the United States. The interventionistic and harmonised „*Festung Europa*” may let the largest states rest only for a short time, at the cost of peripheral areas, but already in the mid run, it is not a good solution even for them. We may observe benefits resulting from system competition in the post-communistic states. Isn't the example of Slovakia and Estonia a strong inspiration, and even pressure for the others?

The actual execution of the single market, including, but not limited to, eliminating barriers between national monopolists and foreign competition, will reduce business costs in the EU and allow to achieve some advantages of the scale. It will also improve the situation of consumers. Thus, it has to be supported. Whereas, further fast integration of systems and social and economic policies will make Europe weaker, and not stronger. Europe that will not be able to use the potential of all its areas. Against the opinion of intellectual elites of the hard core of Europe, small and peripheral states constitute a transformation opportunity for the whole Union, because they are

institutionally more flexible and innovative, and observe common rules better. These are the real leaders of changes: Ireland and Finland. The accession states are younger and less hungry of success and do not have established groups of interest, therefore they are more ready to adjust and have pro-market elites. They are a chance and not a threat. Of course, they must learn the Union, i.e. among others develop a consensus, observe the rules of the game, but for sure they will not block the deregulation or liberalisation of markets. Europe needs bigger involvement and creativity of all its states, not pushing them to passive and claimative positions.

The most convenient integration sequence for the whole continent should stipulate for, at first, deregulation, real implementation of the single market concept and convergence, i.e. making development level similar, and later further harmonisation and integration deepening. Europe needs a balanced decision-making process, without the tyranny of large, small or poor states. The large states have to reduce their influence to the benefit of responsible and co-operative partnership with smaller and small states. The partnership for better system and social and economic policy in the Union and individual states. It is a common challenge. The system of authority based on the draft constitution, providing the directorate of the large with a decisive vote, is not functional either for transformation or social and economic development of the Union. It will weaken the European Commission, render deregulation more difficult, simplify the selection of the intervention path, disactivate and reduce the responsibility of small and medium-sized states. It will not let us create national citizenship of the Union or the Europe of People, and only such Europe may be successful in the contemporary world.

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